REMARKS

Reconsideration and allowance of the present patent application based on the following remarks are respectfully requested.

By this Amendment, claims 1, 12 and 13 and the specification are amended and claim 3 is cancelled without prejudice or disclaimer to the subject matter therein. Support for the amendments to the claims can be found throughout the original description. The specification has been amended to correct an error in Tables A and B. Namely, the number of shares of stock D in the target portfolio should be 17 and the number of shares in the actual investment portfolio should be 42. In that way, the difference between the target portfolio and the actual investment portfolio produces -25 shares, as indicated in Table C and paragraph 27 of the present application. No new matter has been added. Accordingly, after entry of this Amendment claims 1-2 and 4-24 will remain pending in the patent application.

Entry of the Amendment is proper under 37 C.F.R. §1.116 as the amendments: (a) place the application in condition for allowance for the reasons discussed herein; (b) do not present any new issues that would require further consideration and/or search as the amendments merely amplify issues discussed throughout the prosecution; (c) do not present any additional claims without canceling a corresponding number of claims; and (d) place the application in better form for appeal, should an appeal be necessary. Entry of the Amendment is thus respectfully requested.

Claims 1-5, 9-11, 13-15 and 19-21 were rejected under 35 U.S.C. §103(a) based on U.S. Pat. No. 6,687,681 to Schulz *et al.* (hereinafter "Schulz") in view of U.S. Pub. No. 2002/0174045 to Arena *et al.* (hereinafter "Arena"). The rejection is respectfully traversed.

Claim 3 is cancelled without prejudice or disclaimer, thus rendering moot the rejection of this claim.

Claim 1 recites a method for managing investment portfolios using a computer, the method comprising, *inter alia*, "...randomly allocating the at least one investment portfolio security to at least one of a plurality of tax lots associated with the at least one investment portfolio security to be sold and computing an implied total short-term capital gain or loss that would result from the sale of the at least one investment security from the at least one tax lot..."

These aspects of claim 1 are fully supported by the original disclosure. As a non-limiting example, one embodiment of the invention described at paragraphs 19 and 25-29 of the present application discloses a mechanism for liquidating securities, which is designed to

minimize tax exposure for the investor. As opposed to a FIFO strategy, in which shares are first sold from the farthest (i.e. oldest) tax lot to the closest tax lot (i.e. more recent), and to a LIFO strategy, in which shares are first sold from the closest tax lot to the farthest tax lot, the new approach recited in claim 1 relies on a random allocation of the shares among various tax lots associated with the shares to be sold. The random allocation strategy stems from the recognition that there is no analytical way of finding "the solution" for path-dependent problems such as tax-efficient investing. *See* present application at paragraph 19. In accordance with an embodiment of the invention, the implied total short-term gain or loss that would result from the sale of the shares in accordance with the random allocation is computed and, if the implied total short-term gain or loss falls within a predetermined threshold, the management portfolio is rebalanced. In one embodiment, the random allocation is performed a plurality of times and the implied total short-term gain or loss that would result from the sale of the shares is computed for each random allocation. In that way, it is possible to identify from the plurality of random allocations, the allocation that results in the smallest implied short-term gain or loss.

There is nothing in the cited portions of Schulz and Arena, taken alone or in combination, that remotely discloses, teaches or suggests these aspects of claim 1.

As noted in the Office Action, Schulz fails to disclose, teach or suggest the aspects of rebalancing the investment portfolio if the short-term capital gain or loss, which would result from the rebalancing of the investment portfolio, falls within a threshold for short-term capital gains or losses. *See* Office Action at page 6, lines 10-11. In fact, Schulz performs the opposite by maximizing capital gains losses (harvesting) and transferring securities when a minimum threshold for losses is exceeded. Specifically, Schulz provides a mechanism that harvests tax losses by waiting for the expiration of the statutory wash sale period to replace securities that have incurred losses in value. Under tax law, these losses are at that point "realized" and can be built up, even though the same securities are re-purchased, in order to offset gains and thus decrease capital gains taxes.

With this said, there are additional features of claim 1 that are absent in Schulz. For example, Schulz is silent as to randomly allocating investment portfolio securities to tax lots associated with the investment portfolio securities and computing the implied total short-term capital gain or loss that would result from the sale of the investment portfolio securities.

In order to harvest tax losses, Schulz discloses that the present market value of each security is first determined. *See* Schulz at col. 5, lines 1-3. Once the present market values of

each of the securities in the account are known, a comparison is made to each stored historical loss value to determine which of the tax lots for each individual account should be harvested for losses. *See* Schulz at col. 5, lines 10-13. The present market value of each security in each individual account is compared to the stored historical loss value of the tax lot for that security. The difference in value is compared to a predetermined loss threshold, which is preferably selected based on the following factors: (1) tax benefit to the account holder; (2) transaction costs to the individual account holder; and (3) tracking error of the index. The tax loss threshold is approximately between 10% and 15%. Upon completion of the tax loss harvest procedure, all of the selected accounts are rebalanced based on the capitalization weight and industry balance parameters. *See* Schulz at col. 5, lines 50-54. Thus, Schulz does *not* disclose the novel approach of randomly allocating investment portfolio securities to tax lots associated with the investment portfolio securities.

Arena fails to remedy the deficiencies of Schulz. Arena discloses a mechanism for allocating assets among a plurality of investment products held by a particular investor, as opposed to a single portfolio, as in the present invention. The mechanism of Arena first determines whether the assets of all the products are consistent with the inventor's desired models. *See* Arena at Figure 2. Then, instead of separately rebalancing each of the products when the products do not match the desired model, and thereby incurring transaction costs for each transaction, only one product may be rebalanced so that even if that product is not consistent with the model, the aggregation of all the products will be. *See* Arena at paragraph 79. In doing so, the mechanism of Arena does *not* randomly allocate investment portfolio securities to tax lots associated with the investment portfolio securities. *Nor* does the mechanism of Arena compute the implied total short-term capital gain or loss that would result from the sale of the investment portfolio securities.

As a result, any proper combination of Schulz and Arena cannot result, in any way, in the invention of claim 1.

Equally important is the fact that both Schulz and Arena provide no suggestion or motivation for one skilled in the art to randomly allocate shares among tax lots during the rebalancing procedure. As noted above, Schulz compares the present market values of each of the securities in the account to each stored historical loss value to determine which of the tax lots for each individual account should be harvested for losses. As for Arena, the method determines which product, among a plurality of products, should be rebalanced such that the aggregation of all products will be consistent with a desired model. Thus, the process of

Schulz and Arena do *not* rely on any random allocation of shares whatsoever. In fact, by virtue of picking the specific tax lot, and therefore the shares of that tax lot, that should be harvested for losses, the process of Schulz appears to teach away from any random allocation of shares as recited in claim 1. Similarly, by virtue of picking the specific account, and therefore the shares of that account, that should be rebalanced such that all the products will be consistent with the desired model, the process of Arena also appears to teach away from any random allocation of shares as recited in claim 1.

Claims 2, 4-5 and 9-11 are patentable over the cited portions of Schulz, Arena and any proper combination thereof at least by virtue of their dependency from claim 1 and for the additional features recited therein.

Claim 13 is patentable over the cited portions of Schulz, Arena and any proper combination thereof for at least similar reasons as provided above for claim 1 and for the features recited therein. For example, the cited portions of Schulz, Arena and any proper combination thereof are silent as to a system for managing investment portfolios comprising at least one computing device having software associated therewith that when executed performs a method comprising, *inter alia*, "...randomly allocating the at least one investment portfolio security to at least one of a plurality of tax lots associated with the at least one investment portfolio security to be sold and computing an implied total short-term capital gain or loss that would result from the sale of the at least one investment security from the at least one tax lot..."

Claims 14-15 and 20-21 are patentable over the cited portions of Schulz, Arena and any proper combination thereof at least by virtue of their dependency from claim 13 and for the additional features recited therein.

Accordingly, reconsideration and withdrawal of the rejection of claims 1-5, 9-11, 13-15 and 19-21 under 35 U.S.C. §103(a) based on Schulz in view of Arena are respectfully requested.

Claims 6-8, 12, 16-18 and 22 were rejected under 35 U.S.C. §103(a) based on Schulz in view of Arena, and further in view of "Mutual-Fund Records Pay Off at Tax Time" to Francis (hereinafter "Francis"). The rejection is respectfully traversed.

Claims 6-8 and 16-18 are patentable over the cited portions of Schulz, Arena and any proper combination thereof at least by virtue of their dependency from claims 1 and 13, respectively, and for the additional features recited therein.

Francis fails to remedy the deficiencies of Schulz and Arena. Francis discloses various means of accounting for capital gains or losses that are allowed by the IRS, including FIFO, average cost, and specific identification.

The Office equates the aspect of randomly allocating securities to a plurality of tax lots with the method of average purchase cost. Further, in response to Applicant's Amendment of June 17, 2008 (hereinafter "the Amendment"), the Office asserts that "not specifying which shares, recently purchased or purchased 'years down the road,' are being sold when mutual funds are sold is indicative of being random." *See* Office Action at page 5, lines 1-2. Applicant respectfully disagrees.

The average purchase cost method involves calculating the ratio between the total cost paid for all of the relevant securities in a given portfolio divided by the total number of relevant securities. In doing so, it cannot possibly be said that Francis *randomly allocates* at least one investment portfolio security *to at least one of a plurality of tax lots* associated with the at least one investment portfolio security to be sold, since, in Francis, *all* of the securities of *all* the different tax lots are necessarily taken into account in determining the average purchase cost. In other words, in Francis, there is no randomness involved in allocating securities *in relation to* tax lots, as recited in claim 1.

Accordingly, claims 6-8 and 16-18 are patentable over the cited portions of Schulz, Arena and any proper combination thereof.

Claim 12 is patentable over the cited portions of Schulz, Arena, Francis and any proper combination thereof for at least the same reasons as provided for claims 6-8 and 16-18 and for the features recited therein. Specifically, Schulz, Arena, Francis and any proper combination thereof are silent as to "*allocating randomly, a plurality of times*, the securities to be sold *to a plurality of tax lots* associated with the securities to be sold; *computing* an implied total short-term capital gain or loss that would result from the sale of the plurality of securities to be sold in accordance with *each of the random allocations*; *selecting from the plurality of random allocations* the allocation that results in the smallest implied short-term capital gain or loss; and *rebalancing* the investment portfolio if the implied short-term capital gain or loss for the selected random allocation falls within a threshold for short-term capital gains or losses." (Emphasis added).

In response to the Amendment, the Office asserts that the recitation "a plurality of times" in claim 12 does not add any patentable weight. Applicant respectfully disagrees. This recitation adds as much patentable weight as the other recitations of claim 12.

Specifically, this recitation requires that (1) the random allocation of the securities to the plurality of tax lots be done more than once and that (2) the implied total short-term capital gain or loss also be done more than once, since it will be computed for each of the random allocations. With this said, it is clear that none of the accounting methods of Francis disclose, teach or suggest these aspects of claim 12.

First, as noted above, the average purchase cost accounting does not involve any randomness and, as a result, cannot be possibly equated with the random allocation of claim 12. As explained previously, the average purchase cost accounting of Francis does not involve any random allocation of shares in relation to tax lots, since *all* of the securities of *all* the different tax lots are necessarily taken into account in determining the average purchase cost.

Second, and equally important, is the fact that even assuming *arguendo* the average purchase cost accounting of Francis could unreasonably be construed as the random allocation of claim 12, Francis does not disclose, teach or suggest that the average purchase cost method is performed *a plurality of times* and that the implied total short-term capital gain or loss is computed *a plurality of times*, i.e. *for each random allocation*. In fact, there is no reason as to why Francis would perform these steps since the average computed by Francis results in a *single value*. Therefore, the idea of calculating the average a plurality of times, and then computing the value of the implied total short-term capital gain or loss for each result, falls apart since these computations would provide the *same single value*. Along these lines, the idea of *selecting from the plurality of random allocations* the allocation that results in the smallest implied short-term capital gain or loss would also be meaningless since there would be no plurality of different values to select from. In other words, by virtue of ignoring the aspects of performing the random allocations *a plurality of times*, the Office has not considered the computing step and the selecting step of claim 12. In other words, even assuming *arguendo* the average purchase cost can be considered random, it does not meet the additional features of claim 12.

Claim 22 is patentable over the cited portions of Schulz, Arena, Francis and any proper combination thereof for at least the same reasons as provided for claim 12 and for the features recited therein.

Accordingly, reconsideration and withdrawal of the rejection of claims 6-8, 12, 16-18 and 22 under 35 U.S.C. §103(a) based on Schulz in view of Arena, and further in view of Francis are respectfully requested.

Claims 23 and 24 were rejected under 35 U.S.C. §103(a) based on Schulz in view of Arena in further view of the Official Notice. The rejection is respectfully traversed.

Claims 23 and 24 are patentable over the cited portions of Schulz, Arena and any proper combination thereof at least by virtue of their dependency from claims 1 and 13, respectively, and for the additional features recited therein.

The Office concedes that the additional features of claims 23 and 24 are not disclosed in Schulz and Arena but takes Official Notice that these features are well known in the art. This is improper. Applicant notes that "it is never appropriate to rely solely on 'common knowledge' in the art without evidentiary support in the record, as the principal evidence upon which a rejection was based." *See* MPEP §2144.03 citing Zurko, 258 F.3d at 1385, 59 USPQ2d at 1697. Official Notice unsupported by documentary evidence should only be taken by the Examiner where the facts asserted to be well-known, or to be common knowledge in the art, are capable of instant and unquestionable demonstration as being well-known. *See* MPEP § 2144.03, emphasis added. In addition, it is respectfully submitted that general conclusions concerning what is "basic knowledge" or "common sense" to one of ordinary skill in the art without specific factual findings and some concrete evidence in the record to support these findings cannot support an obviousness rejection. *Id.* Furthermore, as noted by the court in *Ahlert*, any facts so noticed should be of notorious character and serve only to "fill in the gaps" in an insubstantial manner which might exist in the evidentiary showing made by the examiner to support a particular ground for rejection. *Id.* Here, the Office has failed to provide some concrete evidence to support its finding, as required by MPEP § 2144.03. Further, none of the alleged facts of which the Office takes Official Notice are capable of instant and unquestionable demonstration as being well known, nor do they only "fill in the gaps" in an insubstantial manner. *See* MPEP § 2144.03. Thus, for at least these reasons, this rejection is improper and must be withdrawn.

Accordingly, reconsideration and withdrawal of the rejection of claims 23 and 24 under 35 U.S.C. §103(a) based on Schulz in view of Arena and further in view of the Official Notice are respectfully requested.

The rejections having been addressed, Applicant respectfully submits that the application is in condition for allowance, and a notice to that effect is earnestly solicited.

If any point remains in issue which the Examiner feels may be best resolved through a personal or telephone interview, please contact the undersigned at the telephone number listed below.

Please charge any fees associated with the submission of this paper to Deposit Account Number 033975. The Commissioner for Patents is also authorized to credit any over payments to the above-referenced Deposit Account.

Respectfully submitted,

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